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EUROPEAN ECONOMIC UNION

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EUROPEAN ECONOMIC UNION

A EUROPEAN ECONOMIC COALITION, forming a great tariff-free trading area for the manufactured products of a dozen continental countries and the United Kingdom, is coming rapidly into view across the Atlantic. The six nations which set up the pioneer European Coal and Steel Community four years ago—Belgium, France, Italy, Luxembourg, Netherlands, West Germany—signed a treaty at Rome on Mar. 25 to establish a common market or customs union. Meanwhile, plans are under way to link Great Britain, the Scandinavian countries, Austria, Switzerland, and possibly others with the common-market group to make an over-all free trade area embracing a population of 240 million persons.

When the projected European Defense Community went down to defeat at the hands of the French National Assembly at the end of August 1954, the movement for European unification appeared to suffer a blow from which it would not soon recover. Yet the common market project, calling for supranational administration in a sector almost as vital as national defense, is already close to reality. The free trade area plan, while not involving a comparable surrender of sovereignty, is of equal economic significance, particularly because it proposes to make Great Britain an active associate in a scheme for European integration.

The anticipated benefits will not be realized in the immediate future or all at once. The convention or treaty on the free trade area probably will not be ready for signing until late this year. Both that treaty and the treaty on the common market will have to be approved by the parliaments of the signatory countries and may well encounter delay in the process of ratification. There is confidence, however, that they will survive. When put into effect, possibly sometime in 1958, the customs changes which they require will be made gradually; the goal of complete free trade will not be attained for at least 12 to 15 years.

Time is needed for the extensive readjustments that will be necessary when enterprises protected by high tariff walls have to meet the competition of similar but more efficiently operated enterprises in countries which have not given such protection. Modernization of manufacturing methods, shifts to production of different commodities, and retraining of workers are among prospects that will have to be faced in some industries in some countries. Equalization of such production costs as wages, social security, and taxes is another problem which may present difficulties.

To solve all the problems and make all the adjustments needed to achieve the final objective of a fully integrated common market and free trade area will be a tremendous task. However, if the effort expended to bring about economic unification eventually pays off in good measure, Western Europe may find that it has taken a long practical step toward the hitherto elusive goal of political unification.

Early Postwar Progress on European Unification

Proposals for European union date back 350 years to the Great Design of Henry IV of France, which included a plan for free trade in a continental federation. In modern times Briand of France pushed a scheme for a United States of Europe to the stage of official consideration by the countries concerned, but to no avail.[1] Pressure for unification, both political and economic, increased after World War II. Winston Churchill, speaking at The Hague in May 1948 "against the background of a great thunderstorm, called upon the nations of Western Europe to unite."[2] Other powerful voices, including those of Gen. Eisenhower, Foreign Minister Schuman of France, and Chancellor Adenauer of West Germany, joined in the appeal. Legislation of the American Congress authorizing Marshall Plan aid declared it to be "the policy of the people of the United States to encourage the unification of Europe," and Paul G. Hoffman, first European Cooperation Administrator, repeatedly urged the Marshall Plan countries to integrate and expand the economy of Western Europe by forming a single large market free of impediments to trade.[3]

Postwar sentiment for political unification was sufficiently strong, not to bring about the ultimate objective of feder-

[1] See "Federation of Europe," *E.R.R.*, Vol. I 1947, pp. 386-388.

[2] Roy Harrod, "Britain and the Common Market," *Foreign Affairs*, January 1957, p. 225.

[3] See "European Unification," *E.R.R.*, Vol. I 1952, pp. 3-7.

ation, but to lead the governments of Western Europe in 1949 to form the so-called Council of Europe. The Council consists of a Committee of Ministers, made up of the foreign ministers of the 14 member states, and a Consultative Assembly whose 125 members, apportioned among the participating countries, are members of their respective parliaments. While only a "debating society" without effective powers, the Council of Europe carries the prestige of an officially supported regional organization. Its Consultative Assembly, meeting several times annually at Strasbourg, has served as a prominent forum for advocates of political unification.

The virtual impossibility of fully federating at one stroke a group of independent countries with different traditions, different languages, and different economic characteristics turned attention to the limited but more promising prospects of the so-called functional approach to integration. The leading examples of that approach have been the Schuman plan to integrate the coal and steel industries of Western Europe and the abortive plan to integrate European defense forces. Concerned respectively with economic and military matters, those projects had also a political aspect. The provisions for administration through supranational executive, legislative, and judicial organs offered a testing ground for more comprehensive political union.

A treaty to establish the European Coal and Steel Community was signed on Apr. 18, 1951, and went into effect July 25, 1952, following ratification by the same nations as have decided now to form a general customs union. The Schuman plan pact set up a common market in coal and steel products among the six participating countries. Tariffs and quantitative restrictions on imports and exports of those commodities were to be eliminated within the community, some immediately and some progressively over a five-year period which will end in February 1958. Producer agreements tending to restrict competition were outlawed, and free movement of experienced coal and steel workers from country to country within the community was safeguarded.

Administration and enforcement of the treaty provisions were put in the hands of a miniature international government to which the participating countries delegated a portion of their national sovereignty. Its basic institutions include a High Authority of nine members; a Common

Assembly of 78 members and a Council of Ministers with one representative from the government of each country; and a Court of Justice. The administering High Authority was made responsible to the Common Assembly, which can dismiss members of the executive arm by a two-thirds vote. The Court of Justice was given power to nullify decisions of the High Authority and acts of the Common Assembly which exceed their respective powers.[4]

SLUMP IN UNIFICATION PROSPECTS AFTER E.D.C. DEFEAT

The proposal for an integrated European army, first broached by Churchill in the Consultative Assembly of the Council of Europe in the summer of 1950, took on practical significance later as a device to overcome French apprehensions about inclusion of German units in a NATO defense force. It was only after protracted negotiation, however, that the six founders of the European Coal and Steel Community agreed to form a European Defense Community; the treaty was signed May 27, 1952, eleven days after ratification of the E.C.S.C. treaty was completed.

E.D.C. was to be administered by a supranational executive of nine members, comparable to the E.C.S.C.'s High Authority, and be subject to the legislative and judicial jurisdiction of the Common Assembly and Court of Justice which were being established to serve E.C.S.C. in those capacities. All these controls, however, were not enough to quiet continuing French fears of a rearmed Germany. After more than a year of backing and filling, the E.D.C. treaty was ratified early in 1954 by four of its six signatories. A fifth, Italy, was on the verge of ratifying in August 1954 when the French National Assembly rejected the treaty.

Demise of E.D.C. put an end also to plans for a limited European Political Community. E.P.C. was to have had a full set of central supranational institutions to take over legislative and judicial functions for all individual communities and exercise general supervision over E.D.C., E.C.S.C., and any similar communities set up in other fields. However, neither this substantial step toward political unification nor any new projects for functional integration could command a wide hearing in the wake of abandonment of the project for integration in the all-important defense sector.

[4] *Ibid.*, pp. 11-12.

Revival of Interest in Economic Integration Plans

The advantages of close economic cooperation were nevertheless being made apparent in expansion of production and trade in coal and steel products under the aegis of the European Coal and Steel Community. Accordingly, less than a year after E.D.C.'s rejection, the six nations comprising what was coming to be known as Little Europe took preliminary action looking to application of the E.C.S.C. pattern in other fields. The work of a study committee established in June 1955 attracted little attention until the autumn of 1956. Events on the international scene then conspired to mobilize political and public support behind the proposals for a European customs union and a European atomic energy agency which had grown out of the committee's labors.

Though grateful for economic aid in past times of need and for continuing military aid and support, the peoples of Western Europe had begun to tire of having American air bases and other military installations, plus thousands of American servicemen, always in their presence. With economic strength returning, moreover, Europeans were increasingly restive under the seeming necessity of having to follow the lead of the United States in world affairs. However, when France and Great Britain, exasperated by Washington's indecisive approach to the problems created by Egypt's nationalization of the Suez Canal Company, struck out on their own to impose a forcible solution, they were obliged to backtrack. Suez demonstrated plainly that Western Europe was not strong enough to deal with such a crisis without the support of the United States, and that it could not take that support for granted.

The result was an instinctive drawing together of the Western European countries.[5] The instruments nearest at hand to make closer cooperation effective were the projected customs union and the related free trade area plan. Great Britain had become interested in the latter project as a means to meet stiffer German competition in continental markets without abandoning the British system of imperial preferences. Although the U.S. government favors the proposals, they may stir up protests from parts of the business community in this country. Some American export indus-

[5] "The European nations are somewhat like scattered chicks. When they see a hawk hovering above them—whether in the form of Stalin or Nasser—they tend to come together."—Paul-Henri Spaak, "The West in Disarray," *Foreign Affairs*, January 1957, p. 189.

tries are likely to find competition tougher in a European common market, but U.S. export trade as a whole is expected to benefit in the long run.

Plans for Euratom and Common Market

THE INITIATIVE for further European unification, following E.D.C.'s defeat, was taken by the foreign ministers of Belgium, Luxembourg, and the Netherlands—three small countries which had formed a customs union of their own on Jan. 1, 1948, and had since been working toward further integration of their economies.[6] A Benelux memorandum in mid-May 1955 to France, West Germany and Italy, proposing abolition of trade barriers and the establishment of common policies in the fields of atomic energy, conventional power, and transport, led to a conference of the foreign ministers of the six countries a fortnight later at Messina, Sicily.

The two-day meeting, June 1-2, produced agreement that economic union of Europe was "indispensable" and should be sought through "the development of common institutions, the progressive fusion of national economies, the creation of a common market and the progressive harmonization of . . . social policies." An inter-governmental committee, under the chairmanship of Belgian Foreign Minister Paul-Henri Spaak, went to work at Brussels, July 9, 1955, to point the way. The so-called Spaak report, completed the following April, won the unanimous approval of the foreign ministers at a meeting on May 29-30, 1956, at Venice.

Initial proposals to establish separate integrated authorities for conventional power and for transport were not pursued. It has been said that former Netherlands Foreign Minister Willem Beyen sensed danger in a proliferation of commodity agencies like the Coal and Steel Community. Beyen's feeling that it was preferable to promote European economic unification by concentrating on prob-

[6] The Benelux customs union was initiated in 1948 with elimination of tariffs on trade among the three countries and application of a common tariff on imports from other countries. Quantitative restrictions on internal trade, with certain exceptions, were abolished in mid-1949, but coordination of financial, monetary, and economic policies proceeded more slowly.

lems common to all industries found expression in the agreement to go ahead with the customs union project to the exclusion of individual community plans except in the special case of atomic energy.[7]

With the detailed recommendations of the Spaak report as guide, government delegates assembled at Brussels late in June 1956 to draft treaties creating Euratom and the common market. Most of the differences that cropped up among the negotiators yielded to compromise at meetings of the foreign ministers in October and again late in January and early in February 1957. At a final meeting in Paris, Feb. 19-20, attended by premiers as well as foreign ministers, the six countries overcame the last obstacles to full agreement on the two treaties.

Functions of European Atomic Energy Community

The European Atomic Energy Community (Euratom), a supranational agency comparable to the Coal and Steel Community, is to hold title to all fissionable materials within the six member nations with the exception of supplies diverted to military use.[8] It was proposed originally that membership in Euratom entail surrender of the right to manufacture nuclear weapons, but French objections to giving up that right prevailed. Euratom itself will be concerned only with peaceful applications of atomic energy.

The agency will purchase, distribute, and exercise continuing control over fissionable materials applied to peaceful purposes; possibly build and operate certain basic nuclear facilities for the common benefit; and help finance nuclear projects undertaken on a national basis by member states of the community. In addition, Euratom will conduct a training school for nuclear specialists and a research center for experimental work and will act generally as a clearing house for nuclear information.

Jean Monnet, first chairman of the Coal and Steel Community, has pictured atomic power development as the answer to Europe's chronic and growing fuel shortage. Such development may be carried out in part through the supranational Euratom and in part through looser cooperative arrangements sponsored by the Organization for Euro-

[7] Michael A. Heilperin, "Europe Edges Toward a Common Market," *Fortune*, September 1956, p. 165.

[8] Fissionable materials for military use will belong to the nations receiving them but will be under control of the Western European Union, which includes the six countries and Great Britain.

pean Economic Cooperation, originally a Marshall Plan agency. Experts representing 14 of the 17 O.E.E.C. countries have been working on a plan for joint financing of atomic power and other nuclear projects through international companies in which private interests as well as governments might participate.[9]

Euratom and the customs union are both to be controlled by supranational institutions paralleling those of the Coal and Steel Community. The two new projects will share a Common Assembly, made up of members of the national parliaments, and a Court of Justice. It is contemplated, moreover, that the proposed 142-member legislative body shall eventually absorb E.C.S.C.'s 78-member Common Assembly, and that a single Court of Justice shall serve the three supranational organizations[10] Day-to-day administration of Euratom and the common market will be entrusted to separate commissions, while policy-making and coordination of national policies in each case will be in the hands of a Council of Ministers having more power than the corresponding E.C.S.C. council. France, Germany, and Italy are to have four votes apiece in the Council of Ministers, Belgium and the Netherlands two votes apiece, and Luxembourg one vote.[11]

Scope of the Six-Country Common Market Scheme

The goal of the customs union treaty is to establish a tariff-free common market—the European Economic Community—in not less than 12 years and not more than 15 years. To that end, the treaty provides that the six participating countries shall reduce tariff rates by successive 10 per cent stages at intervals of a year to a year and one-half. At the end of eight years, when the rate reductions have totaled 60 per cent, the Council of Ministers is to apportion the remaining 40 per cent of reductions over a final period of from four to seven years. Quotas or other trade barriers also will be eliminated so that, at the conclusion of the transition period, trade in products of the six countries among themselves, and to some extent with colonial areas, will be completely free. The six countries now have a combined population of 161 million persons.

[9] See "Atomic Power Race," *E.R.R.*, Vol. I 1957, pp. 155-156.

[10] Great Britain has proposed a merging of the separate assemblies, including that of the Western European Union, under the Council of Europe. W.E.U.'s assembly is composed of the representatives of member countries in the Consultative Assembly of the Council of Europe.

[11] Decisions on some matters will have to be unanimous; on others a majority of 12 of the 17 votes will be required.

Imports into the common market countries from other countries will be subject to duties prescribed by a common tariff to be applied by the six nations on external trade. Under the rules laid down for customs unions by the General Agreement on Tariffs and Trade (GATT), rates of duty imposed by the common market's external tariff will have to be fixed at no more than an average of the comparable rates at present assessed by France, Germany, Italy, and the Benelux customs union. This means in effect that outside imports into any of the six countries will have to pay duty at rates lower than they now pay when entering protectionist France but possibly higher than now paid when entering low-tariff Belgium, Holland, or Luxembourg.[12]

Treatment of commerce with colonial areas of member countries was one of the last questions settled in the common market negotiations. At the insistence of France, it was finally agreed that markets in the overseas territories should be progressively opened to the trade of all common market countries on equal terms in return for investments by them in capital development of the territories. An initial five-year convention is to be annexed to the general treaty to define the conditions for opening reciprocal trade and to fix amounts to be contributed to an investment fund. If this scheme works out as intended, Germany, which has no overseas territories, will put as much money as France into the development of French, Belgian, and Dutch colonies. The ultimate result, as envisioned by French leaders, would be to make the colonies a common European responsibility and in particular to forward the conception of a so-called Eurafrican community.[13]

Efforts are contemplated under the common market agreement to harmonize national variations in such factors affecting production costs and prices as subsidies, social security taxes and benefits, and wage scales. A need for stable and convertible currencies in a common market has led to suggestions that the French franc may have to be devalued. However, retention for the time being of certain French export subsidies and import taxes probably will

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[12] The Benelux countries will be allowed to negotiate tariff adjustments on certain commodities with other countries, or remove tariffs entirely on fixed quantities.

[13] "On the day when a large common market—in which the overseas territories will be associated—has been created, [France] would like to promote the formation of a Eurafrican whole. Europe in its entirety, bringing to Africa its capital and its techniques, should enable the immense African continent to become an essential factor in world politics."—French Foreign Minister Christian Pineau to U.N. General Assembly's Political Committee, Feb. 4, 1957.

obviate the necessity for such action in the near future. In fact, gradual installation of the common market over a long period of years may give room for a good deal of voluntary and relatively painless adjustment in place of drastic forced measures. It has been pointed out that various difficulties anticipated in the case of Benelux "merely disappeared," and that "The Benelux experiment has continued successfully *without* any harmonizing as yet in the chief factors (particularly wages) of production costs." [14]

Adjustment in some cases, however, will inevitably be painful. Marginal enterprises in high-cost, protected economies like that of France may well be submerged under the competition of low-cost, more efficient producers in other countries of the common market. To help out in such situations, it is planned to set up a generously capitalized European Investment Bank to finance industrial modernization, conversion to new lines of activity, and worker retraining.

Marginal enterprises will not be the only ones affected when tariff bars fall. Even thoroughly modern French automobile plants, for example, will have to find new ways to cut costs. The measure of the protection they will lose eventually is illustrated by the fact that the equivalent of $1,800 is charged in France for a Volkswagen which sells in Germany for $1,150. The consumer naturally will benefit from the competition and the higher volume of production which free trade is expected to bring. Trade of the six countries with one another now represents about 35 per cent of their total foreign trade; some observers think the proportion may double when the common market has become fully operative.[15]

Britain's Proposal for Broader Free Trade Area

Great Britain, while urging the continental countries to unite, always has shied away from full participation in plans for European unification partaking of a supranational character. It joined the Council of Europe, a body without substantive powers, but declined active membership in the Coal and Steel Community and E.D.C.[16] The same attitude

[14] Michael A. Heilperin, "Europe Edges Toward a Common Market," *Fortune*, September 1956, p. 143.

[15] Paris dispatch to *Wall Street Journal*, Feb. 21, 1957.

[16] An "Association Agreement" between the United Kingdom and E.C.S.C. entered into force on Sept. 23, 1955. It provided for a Council of Association which meets alternately in London and Luxembourg, seat of E.C.S.C.'s High Authority. Three standing committees—on coal, steel, and trade relations—keep the British and European coal and steel industries in close touch. The United States maintains a diplomatic mission, headed by an ambassador, at the seat of the High Authority.

was displayed toward the customs union project, but fear that British exporters could not meet German competition in the tariff-free common market impelled London to seek a way to put British manufacturers on a comparable footing on the continent.

The device settled upon was a free trade area in association with the common market. Countries in the free trade area would exchange goods among themselves and with common market countries on the same basis as that on which the latter trade with one another, but they would retain the right to fix their own tariffs on trade with outside countries.[17] By so doing and by excluding agricultural and certain other commodities from free trade treatment, Great Britain could maintain the system of imperial preferences established at Ottawa in 1932. Nearly 90 per cent of its imports from the Commonwealth fall into the category of foodstuffs or other farm products.

Last July, immediately after the task of drafting the common market treaty had been started, the Council of the Organization for European Economic Cooperation under the chairmanship of Harold Macmillan, then Britain's Chancellor of the Exchequer, established a committee to study possible forms of association between the proposed customs union and other O.E.E.C. countries. While waiting for the committee to report, Macmillan and Peter Thorneycroft, then president of the Board of Trade, consulted with the Commonwealth countries and with representatives of industry and labor at home. In the House of Commons, Nov. 26, Macmillan was able to announce their general support and the decision of the government to proceed with the project.

The O.E.E.C. committee reported on Feb. 4 that organization of a free trade area was "technically possible"; it expressed the opinion that such an arrangement would reinforce rather than compete with the common market. To avoid development of discriminations between two European economic groups, the committee cautioned that the customs union and the free trade area should be introduced simultaneously, reduce tariffs to the same degree and at the same times, and have similar escape clauses.

When the O.E.E.C. Council met in Paris, Feb. 12-13, it

[17] Though surrendering this right, the countries in the customs union, by forming a large economic bloc with a common tariff, put themselves in strong position for tariff bargaining with other countries.

named Thorneycroft, now Chancellor of the Exchequer in the new Macmillan government, to coordinate the activities of committees which he was to set up to work out methods of establishing the proposed free trade area and of linking it with the common market. It was hoped that reports, if not a draft treaty, could be submitted to the Council at its next meeting in July. However, appointment of the committees was delayed until mid-March by the last-minute decision of the common market countries to bring overseas territories into the customs union. The potential economic effects of that move are not clear, but if foodstuffs from the colonies are to be admitted free into the common market, it may play hob with the British plan to restrict the free trade area largely to manufactured products.

A British White Paper suggested as late as Feb. 7 that the six countries of the customs union appeared to be aiming at a regulated rather than a free market for foodstuffs. At the mid-February O.E.E.C. meeting, however, representatives of the six and also of some other O.E.E.C. countries reportedly took sharp exception to the British proposal for exclusion of agricultural commodities. When the premiers of the common market group made the decision about colonies a few days later, they showed little concern over its possible effect on the free trade area plan. Nor were they disposed to defer establishment of the common market until those promoting the free trade area could catch up. Their attitude may have reflected a general feeling that the issue of foodstuffs may delay but will not kill the proposal for a free trade area.

Benefits in Close Association With the Continent

Free trade in manufactures with the customs union countries promises so many advantages for British industry, and the alternative appears so bleak, that London can hardly afford to back out of the project. At a press conference last Oct. 3 Macmillan pointed out that:

> If Western Europe, including the United Kingdom, could develop into a free trading area, this would undoubtedly be a great source of strength—a common market of nearly 250 million people. It would, over a period, be able to provide for this country the full advantages of large-scale production which tend in the modern world to be associated with big economic units, such as the U.S.A. and now the U.S.S.R. If this group were strong and prosperous, it would, moreover, be advantageous for the Commonwealth from two points of view—as a market and as a source of capital. For it is the large units which can accumulate and export capital.

After conferring with Premier Mollet in Paris, Macmillan said, Mar. 10, that although difficulties would be encountered in the search for "a formula for the participation and cooperation of the United Kingdom" in the common market and free trade area plans, he was "convinced that the means of overcoming these difficulties must be and will be found." [18]

Whether the free trade area project, under the sponsorship of O.E.E.C., will include all the countries in that group is not yet certain. Those which have been considered most likely to join Great Britain in a free trade link with the common market are Austria, Denmark, Norway, Sweden, and Switzerland.[19] Those countries and the six of the common market group, comprising the whole of Western Europe down to the Spanish border, together purchased about 20 per cent of the United Kingdom's total exports in 1955 and supplied around 20 per cent of its imports. Considerably more of the trade, both ways, was with the common market countries than with the other O.E.E.C. countries.

While 20 per cent of Britain's exports went to Western Europe in 1955, nearly 46 per cent was sold in the preferential Commonwealth markets. However, the percentages do not tell the whole story of the relative importance to British industry of the Commonwealth and continental markets. The foreign editor of the *Financial Times* of London pointed out on a British radio program last October that there had been "growing disappointment with the Commonwealth as an export market for British goods during the nineteen-fifties."

> While other markets, particularly in Europe and in North America, have been expanding very fast indeed, the sterling Commonwealth—that is, everything excluding Canada—has remained almost static. Even in North America, British exports have had far more success in the United States than in Canada, in spite of the low Canadian tariff on many British products benefiting from imperial preference. . . . The extraordinary revival of Western

[18] The prime minister has not suggested trying to overcome the difficulties by inviting Commonwealth countries to enter the European free trade area. Macmillan was one of the proponents of a long-range plan, reportedly under serious consideration in London more than a year ago, to integrate Western Europe politically and economically with the Commonwealth. Anthony Nutting, another proponent of the plan, who resigned from the Eden government in protest over Suez policy, said in a *New York Herald Tribune* article last Jan. 15 that "If Britain cannot join a European federation because of her Commonwealth ties, Western Europe should join the Commonwealth."

[19] The above countries and the six in the common market group make up 12 of the 17 O.E.E.C. countries. The remaining O.E.E.C. countries are Greece, Iceland, Ireland, Portugal, Turkey.

Europe as a trading area in the nineteen-fifties, coupled with the disappointments in the Commonwealth, have undoubtedly played a large part in the new turn in British policy.[20]

The Economist of London has said similarly that "At a time when Commonwealth preferences are rapidly dwindling away, [the free trade plan] will open to British industry the swiftly growing markets of industrialized Western Europe—competitive, but rich and diverse in promise like those which British exporters are beginning to tap in the United States."[21] *The Economist* had pointed out earlier that if Britain stayed completely outside the common market project, tariffs against German goods in Europe would come down while those against British goods stayed up, and the United Kingdom would be confronted with the "terrifyingly solid spectre" of "an ebullient Germany establishing unchallengeable hegemony over the export markets of the continent." The result, it concluded, would be "far more disturbance for British industries, more threats of unemployment at home, . . . than participation in the scheme could ever bring."[22]

A British economist and publicist has commented that "Today, for the first time in more than a century, the British have really begun to think as Europeans." He added that "If the Suez and oil debacles and the shock of American and Canadian non-support have achieved nothing else of any good, they have performed no mean feat in accomplishing what American planners, policymakers, politicians, and philanthropists have vainly striven to bring about for a decade."[23]

[20] Talk by Andrew Schonfield, reprinted from the *Listener* of Oct. 11, 1956, by *Bulletin From the European Community for Coal and Steel*, November 1956, p. 3.

[21] "Britain Into Europe," *The Economist*, Jan. 26, 1957, p. 264.

[22] "Free Trade Without Emotion," *The Economist*, Oct. 27, 1956, pp. 306-308.

[23] Graham Hutton, "Common Sense on a Common Market," *The Reporter*, Jan. 24, 1957, p. 25.

United States and Economic Union of Europe

EVER SINCE the American states formed their own federal union, prominent voices have been raised from time to time on this side of the Atlantic urging the independent nations of Europe to follow the example set here. Before World War II, federation was advocated, not exclusively but primarily, as a measure to overcome rivalries among the great European powers and improve the prospects for preserving peace. During the past decade the emphasis has been predominantly economic; American pleas for European unification or integration have stressed the benefits of producing and distributing in a single great economic unit comparable to that which has brought high material development to the United States.

The purpose of such pleas by the President and government officials, by Congress, and by others has not been entirely altruistic. The conviction that lowering of economic, if not political, barriers in Europe would strengthen the economies of the various countries, be to the advantage of their people, and contribute to maintenance of peace and stability is genuine. But frequent expression of the conviction, particularly by Congress, has been spurred in part by the belief that, if Europe would only unite and grow strong, appropriations for foreign economic, even military, aid could be progressively reduced.

Between the world wars, when no question of foreign aid was involved, some persons abroad feared that economic aspects of Briand's plan for a United States of Europe would incur American hostility. Briand proposed that the ultimate goal of tariff policy for members of the United States of Europe should be "establishment of a common market to raise to the maximum the level of human well-being over all the territories of the European community." Critics contended that adoption of free trade within Europe and maintenance of a European tariff on imports from outside would be interpreted as a move to combat American competition and would tend to provoke inter-continental rivalry.

Whether or not the critics of that day were correct, the occurrence of another world war, the consequent need to

bolster Europe with massive amounts of aid of various kinds, and years of effort by the United States to bring down world trade barriers under the reciprocal tariff policy adopted in 1934, all prepared this country to take a different attitude toward new moves to create a common market on the continent. However, as the present project approaches realization, signs of the reaction anticipated a generation ago are beginning to appear. Voices warning of at least short-term hazards for American industry are starting to clash with the official words of welcome.

Prospect of Harder Competition for U.S. Exporters

Rising concern results from prospective duty increases in some of the common market countries. U.S. exports last year to the 17 O.E.E.C. countries—the projected European free trade area at its maximum extent—amounted to $4.7 billion or 28 per cent of total exports of $16.6 billion.[24] Among the 17 countries the only ones which will change their tariffs on American and other imports, by reason of the internal free trade arrangements, are the six countries of the common market group. U.S. exports to them in 1956 accounted for 61 per cent ($2.9 billion) of the total to the whole O.E.E.C. group. The low-tariff Benelux countries and moderate-tariff West Germany in turn took together 62 per cent of American exports to the six, while the remaining 38 per cent ($1.1 billion) went to high-tariff France and Italy.[25]

No official estimates of prospective duty increases in the low-tariff countries have been published. According to unofficial estimates, Benelux duties on automobile parts imported for assembly in Belgian and Dutch plants could be boosted all the way from 6 to 22 per cent; on aircraft sold to Belgian and Dutch lines from 10 to 19 per cent; on marine engines from 6 to 18 per cent. A chamber of commerce in the Ruhr has estimated that 70 per cent of all German tariffs will be increased to some extent. Conversely, however, the French duty on machine tool parts may be cut eventually from 25 to 10 per cent, and there will be numerous other reductions in both France and Italy.[26]

The impact of the changes on American and other sup-

[24] Excluding military shipments and other so-called special category commodities.

[25] U.S. exports to the six countries in 1956: West Germany, $782.1 million; Netherlands, $563.9 million; France, $556.6 million; Italy, $524.7 million; Belgium-Luxembourg, $432.1 million.

[26] Examples of duty changes cited in Paris dispatch to *Wall Street Journal*, Feb. 21, 1957.

pliers of the common market countries will be eased not only through balancing of duty increases by duty reductions, but also by negotiations on Benelux duties and by the fact that both increases and reductions will be put into force by stages. The process of adjustment no doubt will hurt some American exporters and benefit others. Shifts in trade, at the expense of U.S. industries, may be brought about also by expansion of commerce of the countries of the common market and of the larger free trade group with one another. The hope is that adverse effects will be held to a minimum by stretching out of the changes and by a parallel growth of trade in general.

Fortune said editorially last winter that "The discriminatory features of the European common market idea deserve far more serious consideration than they seem to be now getting in Paris, London, or Washington." It insisted that, however meritorious the project, it provided for a preferential bloc "in contradiction to this country's long-established policy of reciprocal tariff reduction on a world scale and the 'most favored nation' treatment by all countries." [27] The author of an article in the same issue of the magazine asserted, on the other hand, that the last thing the common market countries wanted was to surround Europe with high tariff walls, because two-thirds of their total foreign trade is with the rest of the world.[28] That dependence on imports, coupled with adherence to GATT rules, is counted upon to curb any tendency by the group to push discrimination against other countries beyond the bounds inherent in a customs union.[29]

Effects of European Union on the Atlantic Alliance

Fear has been voiced that European unification will promote the concept of Europe as a "third force" devoted to maintaining a middle position between the super-powers to the east and the west. Any such development, of course, would point to eventual disruption of the North Atlantic alliance and a far-reaching reordering of relationships within the free world. The ultimate result of a spreading

[27] "Europe vs. the U.S.?" *Fortune*, January 1957, p. 62.

[28] Michael A. Heilperin, "Europe Edges Toward a Common Market," *Fortune*, January 1957, p. 142.

[29] The communique issued Mar. 24, at conclusion of the Eisenhower-Macmillan talks in Bermuda, noted "agreement on the benefits likely to accrue for European and world trade from the plans for the common market and the free trade area, provided they do not lead to a high tariff bloc."

policy of neutrality might be to isolate the United States in lonely grandeur opposite the Soviet Union.

The weight of opinion, however, sees no such risks in European unification. On the contrary, it holds that a united and strengthened Europe will add fresh vigor to the North Atlantic community and correspondingly enhance its ability to help keep the free world free. That view seemed to be confirmed, Mar. 16, when the Soviet government took occasion to level a violent attack on the common market and Euratom plans as playing into the hands of American and West German "monopolists" and increasing the chances of war.

Premier Mollet told the National Press Club at Washington, Feb. 27, that a united Europe could "guarantee that the Atlantic alliance will be lasting and strong." In similar vein, Jean Monnet has affirmed that "A strong and prosperous United States of Europe, delivered from fear, can powerfully contribute to the cohesion of the free world and to our common power to insure peace and progress." [30]

Addressing the American Chamber of Commerce at London, Jan. 17, Chancellor of the Exchequer Thorneycroft declared that "By growing strong in a great European free market we shall be helping not only ourselves, not only Europe, but the Commonwealth and our American friends." Two days earlier, welcoming the moves for a common market and a free trade area in Europe, the State Department had observed that "The association of the United Kingdom in such an arrangement would further strengthen the unity of the Atlantic community and the free world." At Baylor University, Waco, Texas, on May 25, 1956, President Eisenhower called European union "one of the greatest dreams of western man" and said that "With unification, a new sun of hope, security and confidence would shine for Europe, for us, for the free world."

[30] Jean Monnet, "The 'Silent Revolution' in Europe," *New York Times Magazine*, Feb. 5, 1957, p. 51.